



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

July 19, 2002

### **H.R. 3645**

### **Veterans Health Care and Procurement Improvement Act of 2002**

*As ordered reported by the House Committee on Veterans' Affairs on July 16, 2002*

#### **SUMMARY**

H.R. 3645 would change how the Department of Veterans Affairs (VA) procures its health care items. The bill would require that all health care items be purchased through the use of the federal supply schedule (FSS) or national contracts, except for defined exceptions and emergencies approved by the Secretary of Veterans Affairs. H.R. 3645 also would expand VA's enhanced-use lease authority. In addition, the bill would expand health care benefits for certain Filipino veterans, and provide dental benefits for certain former prisoners of war. H.R. 3645 would institute new auditing and accountability standards for research corporations established at VA medical centers. Finally, H.R. 3645 would name an outpatient clinic in New London, Connecticut, as the "John J. McGuirk Department of Veterans Affairs Outpatient Clinic."

The expanded authority for entering into enhanced-use leases would likely generate new federal collections (shown in this estimate as an offset to direct spending), but spending of such additional collections would be subject to appropriation action. CBO estimates that enacting the bill would not affect direct spending in 2003, but would reduce direct spending by about \$2 million over the 2003-2007 period, and by about \$4 million over the 2003-2012 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

In addition, H.R. 3645 would modify provisions governing discretionary spending for veterans' health care programs, which CBO estimates would result in outlays of \$8 million in 2003 and \$65 million over the 2003-2007 period, assuming appropriation of the estimated amounts.

H.R. 3645 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3645 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
<b>CHANGES IN DIRECT SPENDING</b>						
Estimated Budget Authority	0	0	a	-1	-1	-1
Estimated Outlays	0	0	a	-1	-1	-1
<b>SPENDING SUBJECT TO APPROPRIATION</b>						
Baseline Spending Under Current Law for Veterans' Medical Care						
Estimated Authorization Level <sup>b</sup>	22,178	22,884	23,684	24,700	25,262	26,094
Estimated Outlays	22,202	22,865	23,485	24,189	24,978	25,801
Proposed Changes						
Estimated Authorization Level	0	9	16	15	14	13
Estimated Outlays	0	8	15	15	14	13
Spending Under H.R. 3645 for Veterans' Medical Care						
Authorization Level <sup>b</sup>	22,178	22,893	23,700	24,715	25,276	26,107
Estimated Outlays	22,202	22,873	23,500	24,204	24,992	25,814

a. Less than \$500,000.

b. The 2002 level is the estimated net amount appropriated for that year. The current-law amounts for the 2003-2007 period are CBO baseline projections that assume appropriations remain at the 2002 level, with adjustments for inflation.

## BASIS OF ESTIMATE

For this estimate CBO assumes that the bill will be enacted near the beginning of fiscal year 2003, and that estimated amounts will be appropriated each year.

### Direct Spending

H.R. 3645 would expand VA's current authority to enter into enhanced-use leases and to dispose of certain property. An enhanced-use lease is one where VA leases out its property

on the condition that at least part of the property is used in a manner that contributes to VA's mission or improves services provided to veterans in the region where the lease occurs. Under current law, only the Veterans Health Administration (VHA) within VA has the authority to enter into enhanced-use leases. The lease payments to VHA are deposited into the Health Services Improvement Fund.

Under current law, amounts deposited into the Health Services Improvement Fund are considered offsets to direct spending, but VA may spend amounts in the fund without appropriation action. Thus, any such collections are spent, resulting in no net impact on direct spending. In addition, VA has the authority to sell property it leases to other parties at any time during the lease period and up to 30 days after the lease has expired. Proceeds from those sales are deposited into the Nursing Home Revolving Fund. Amounts deposited into the Nursing Home Revolving Fund are considered offsets to direct spending and spending from the fund is subject to appropriation action.

**Veterans Health Administration Leases of Property.** CBO expects that VHA would find it easier to enter into enhanced-use leases under H.R. 3645 because the bill would shorten the time period between when VHA notifies the Congress and the public of its intent to lease out a property and when that lease can be signed from 90 days to 45 days. CBO estimates that under this provision VHA would increase its receipts by less than \$500,000 a year because the shorter notification period would not be a significant change from current practice. (The VHA currently receives about \$1 million in annual receipts from enhanced-use leases.) Because VHA can spend these collections without appropriation action, CBO estimates that the net impact of this provision on the budget would be negligible for each year.

**Veterans Health Administration Sales of Property.** CBO also expects that VHA would be able to sell its leased property more easily under the bill since it also would shorten the time period between when VHA notifies the Congress and the public of its intent to sell a property and when the sale can be completed from 90 days to 45 days. Under current law, the VHA must notify the General Services Administration (GSA) about proposed sales and the two agencies must jointly agree on the terms of the sale. Under the bill, VHA would be able to sell its leased property on its own without having to notify or work with GSA. However, proceeds from the sale of leased property would no longer be deposited into the Nursing Home Revolving Fund under the bill, but would be deposited to the General Fund of the Treasury. While future sales could produce offsetting receipts, CBO believes that VHA would not dispose of any property under this bill because it would not be able to spend the proceeds.

**Veterans Benefit Administration and National Cemetery Administration Leases of Property.** H.R. 3645 also would allow both the Veterans Benefit Administration and the

National Cemetery Administration to enter into enhanced-use leases. Proceeds from these leases would be credited to each organization's appropriation account, but spending from the fund would be subject to annual appropriation action.

Because the increased collections would stem from the authority granted in H.R. 3645 (and would not be subject to appropriation action), we show them as a reduction in direct spending in this cost estimate. Based on the current level of collections received by the VHA, CBO estimates that enacting this provision would have no budgetary impact in 2003, but would increase collections by less than \$500,000 in 2004 and by just over \$500,000 every year thereafter. Thus, CBO estimates the bill would reduce direct spending by about \$2 million over the 2003-2007 period, and by about \$4 million over the 2003-2012 period.

**Veterans Benefit Administration and National Cemetery Administration Sales of Property.** As with VHA, the Veterans Benefit Administration and the National Cemetery Administration would also be allowed to dispose of leased or recently leased property with the proceeds reverting to the General Fund of the Treasury. As discussed above, CBO does not expect that either of these two organizations would actually dispose of any property because the proceeds would be deposited into the U.S. Treasury.

### **Spending Subject to Appropriation**

Three provisions in H.R. 3645 could affect spending subject to appropriation. The bulk of CBO's estimated impact on discretionary spending, however, is for a provision that would make certain Filipino veterans newly eligible for VA health care benefits.

**Filipino Veterans.** Under current law, only certain Filipino veterans who served during World War II are eligible for health care benefits from VA. Under H.R. 3645, any individual who is a Commonwealth Army veteran or New Philippine Scout living legally in the United States would be eligible for VA health care benefits. Using information from VA, CBO estimates that in 2003 about 11,000 Filipino veterans would qualify for this new benefit. CBO estimates that about 2,000 of these veterans would use VA health care benefits in 2003 at an estimated cost of \$4,200 per person. After adjusting for mortality, CBO expects that the number of eligible Filipino veterans using VA health care benefits would grow to 2,700 by 2007 as more of these veterans become aware of the benefit. Accordingly, CBO estimates that providing health care benefits to these Filipino veterans would cost \$8 million in 2003 and \$65 million over the 2003-2007 period, assuming appropriation of the necessary amounts. Costs could be significantly higher—if a much greater percentage of the eligible Filipino veterans apply for the health benefits.

**Health Care Procurement.** H.R. 3645 would change how the VA procures its health care items. The bill would require that all health care items be purchased through the use of the FSS or national contracts, except for narrowly defined exceptions and emergencies approved by the Secretary of Veterans Affairs. CBO believes that implementing the bill might generate some small savings, assuming appropriations are reduced accordingly, but we cannot provide a specific estimate.

VA currently spends about \$4.5 billion annually from appropriated funds buying health care items, and many of those items are already purchased through the use of FSS or national contracts. That is especially true for pharmaceuticals, which account for more than \$2.5 billion of VA's health care purchases. Restructuring VA's procedures for buying health care products under H.R. 3645 might generate some small savings, but we cannot estimate the amount. Available data from VA is primarily anecdotal, and while some VA facilities purchase items locally and pay more than they might under a national contract, other VA facilities purchase health care items at prices lower than FSS or national contract rates. Based on this information and a recent study by the General Accounting Office of purchasing groups for hospitals, CBO does not believe that using FSS or national contracts uniformly would lower costs for all VA facilities. Thus, any savings would be offset to some extent by increased costs at some hospitals. Without more specific data, CBO cannot estimate the extent of the net savings that might occur from implementing H.R. 3645.

**Dental Care for Prisoners of War.** Under current law, former prisoners of war are eligible for dental benefits provided by VA if they were prisoners of war for more than 90 days. Under H.R. 3645, all former prisoners of war would be eligible for dental benefits regardless of how long they were held as prisoners. Using information from VA, CBO estimates that this provision would cost less than \$500,000 a year.

## PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through fiscal year 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	0	a	-1	-1	-1	-1	-1	-1	-1	-1
Changes in receipts						Not applicable					

a. Less than \$500,000.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 3645 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

## **PREVIOUS CBO ESTIMATE**

On June 26, 2002, CBO transmitted a cost estimate for H.R. 3645, the Veterans Health Care Items Procurement Reform and Improvement Act of 2002, as introduced on January 29, 2002. Both versions of the bill would change the way VA procures its health care items, though H.R. 3645, as ordered reported, would establish somewhat less stringent restrictions on VA's procurement practices than the introduced bill. CBO believes that changing VA's procurement practices as specified in either version of the bill might produce some small savings in discretionary spending, but we cannot estimate the amount of those savings.

In addition, H.R. 3645, as ordered reported, contains several provisions that are not in the introduced bill, including the provision of health care to certain Filipino veterans, expansion of VA's enhanced-use lease authority, and the provision of dental care to certain veterans. Differences in the other estimated costs reflect these differences in the bills.

## **ESTIMATE PREPARED BY:**

Federal Costs: Sam Papenfuss

Impact on State, Local, and Tribal Governments: Greg Waring

Impact on the Private Sector: Sally S. Maxwell

## **ESTIMATE APPROVED BY:**

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis